

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Accountants' Report and Financial Statements
December 31, 2011 and 2010

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A Component Unit of Bartholomew County, Indiana
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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Columbus Regional Hospital
Columbus, Indiana

We have audited the accompanying balance sheets of Columbus Regional Hospital (Hospital), a component unit of Bartholomew County, Indiana, as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of December 31, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2012, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require the management's discussion and analysis and pension plan information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were performed for the purpose of forming an opinion on the basic financial statements. The accompanying schedule of expenditures of federal awards required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

May 10, 2012

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Management's Discussion and Analysis
December 31, 2011
(Unaudited)

Introduction

Columbus Regional Hospital (Hospital) is a leading, not-for-profit provider of quality health care services in Columbus, Indiana, serving a ten county region in southeastern Indiana. The Hospital's commitment to serving the community and being at the forefront of quality patient care is recognized at the state and national levels, including the winner of the American Hospital Association's Quest for Quality Prize in 2007, the highest quality honor awarded by the hospital industry. The Hospital has been named as a Best Place to Work in Indiana for six straight years by the Indiana Chamber of Commerce and achieved Indiana's first Magnet designated hospital for outstanding nursing care.

The Hospital has one of the highest home county market shares in the state, and the Hospital's ten-county market share is the largest of any hospital serving the region that is situated between Indianapolis, Louisville and Cincinnati. The Hospital is a county-owned hospital licensed for 325 beds and operating 178 beds. The Hospital has provided services to the following number of patients over the past three years:

Year	Inpatients	Outpatients	Total
2011	8,990	234,514	243,504
2010	8,519	233,255	241,774
2009	9,674	235,151	244,825

The Hospital uses the balanced scorecard methodology to measure its performance in five key pillar areas: people; service; quality and safety; growth and innovation; and financial performance. All are important measures, as the Hospital must balance the various indicators to ensure high quality patient care as it works towards its mission, *"To improve the health and well-being of the people we serve."*

Innovative, Nationally Recognized Care

The Hospital is recognized nationally as a top performing hospital and a benchmark for others in the healthcare industry.

The American Nurses Association (ANA) recognized the Hospital in early 2010 with the Outstanding Nursing Quality Award, one of only six hospitals nationwide recognized, which included Johns Hopkins Hospital and Poudre Valley Hospital among the recipients. The Hospital was recognized for high quality nursing care and outstanding patient outcomes. The award-winning hospitals are among more than 1,500 hospitals that participate in ANA's National Database of Nursing Quality Indicators (NDNQI), the nation's most comprehensive database of nursing-care outcomes measures.

The Hospital was honored to be the winner of the Quest for Quality Prize from the American Hospital Association in 2007, the highest quality honor awarded annually by the hospital industry. This national award is recognition that the Hospital's vision "*to be the best in the country at everything we do*" is evident by employees, physicians and volunteers to provide the very best for patients. The Quest for Quality Prize honors the demonstration of leadership and innovation in quality, safety and commitment to patient care.

In the summer of 2011, Columbus Regional Hospital opened the Innovation Center and Simulation Lab. By merging Lean and Six Sigma, clinical simulation and education in a shared physical space, the Hospital is able to create and adopt best practices quicker. The Innovation Center and Simulation Lab is a place where Hospital employees work to make the delivery of healthcare more compassionate, less complicated, more affordable, more predictable and always state of the art.

The process starts with identifying an opportunity for improvement, followed by hands-on collaboration, new process testing and eventual best-practice implementation with the ultimate goal of making healthcare delivery better for every patient in every interaction. Smart healthcare means the highest quality, safest and most affordable care before, during and after people become patients at Columbus Regional Hospital.

Research supports that learning by doing is the best way to learn and retain information. In the Simulation Lab, clinical and nonclinical teams have the opportunity to use programmable human-like mannequins in simulated patient environments to create real life healthcare scenarios. Simulating real-life experiences in a controlled environment allows for the best learning and provides the opportunity to enhance this learning through review and feedback. This space allows for rapid prototyping and testing of new ideas before they are used in patient care settings.

Renewing Excellence in Challenging Times

Columbus Regional Hospital reopened in October 2008 after a five-month closure due to the impact of a damaging flood. On June 7, 2008, the Hospital was damaged by record flooding and storms that impacted many areas across Columbus, Indiana when the nearby Haw Creek flooded 12 inches above the 500-year flood level. The Hospital safely evacuated 157 patients within three hours. The basement was completely flooded up to 12 feet, and flood waters reached the first floor of the Hospital building with 6 - 8 inches of water. Flooding destroyed the Hospital's basement containing vital information services and operational capabilities including laboratory, pharmacy, electrical/mechanical systems and sterilizing processing, with damage totaling \$172 million.

The Hospital reopened its facilities in phases after the flood. In 2011, the Hospital celebrated the reopening of the basement.

The Federal Emergency Management Agency (FEMA)-approved flood mitigation long-term project will be completed in the spring of 2012. This project included surrounding the entire facility with a flood wall and flood gates. The wall is a minimum of two feet above the 100 year flood level. Additional 2011 efforts to protect the facility included pouring a concrete wall to eliminate loading dock entry points and backfilling the loading dock with soil.

Business Strategy - Balanced Scorecard Approach

The Hospital uses the balanced scorecard methodology to measure its performance in five key pillar areas which are the Hospital's critical success factors: people; service; quality and safety; growth and innovation; and financial performance.

Best People

The Hospital recognizes the strategic importance of having a committed and satisfied workforce, and works to recruit and retain high performing staff. The Hospital's efforts have been recognized as being named one of the Best Places to Work in Indiana for six straight years (2006, 2007, 2008, 2009, 2010 and 2011). The Hospital is one of only five Indiana companies to have made the list for all six years of the program's existence. The Hospital was named to the national Modern Healthcare's 100 Best Places to Work in Healthcare in 2009, rating in the top half on the list. Employee retention rates at the Hospital are better than industry average, as are registered nurse retention rates.

Service Excellence

Service excellence is a key area as the Hospital works for high patient satisfaction, as well as strong employee and physician satisfaction. The Hospital partners with Press Ganey, who works with over 6,000 healthcare organizations across the country, to measure patient satisfaction. The Hospital's work with Lean and Six Sigma to provide better service through streamlined processes has been focused on laboratory, imaging, registration and cardiac catheterization services. Process standardization was a focus across all direct care and support service departments at the Hospital in 2011. This attention to service excellence is the right thing to do for patients, as well as from a business objective so that patients continue to prefer the Hospital for their healthcare needs. Since the introduction of the Lean Sigma Department, the Hospital has completed more than 100 improvement projects which have resulted in a net gain of about \$21 million.

Columbus Regional Hospital was named the fifth Most Beautiful Hospital in America. The Hospital was one of 50 hospitals in Soliant Health's 2011 Most Beautiful Hospital in America contest. The top 50 hospitals were selected by a panel of experts who narrowed the list from more than 250 nominations based on measures such as architectural style, photogenic properties, landscaping and distinctiveness. Columbus Regional Hospital was designed by internationally renowned architect and current Dean of the Yale School of Architecture Robert AM Stern.

Quality and Safety Performance

The Hospital received full re-accreditation for three years from the Healthcare Facilities Accreditation Program (HFAP) in 2009 and again in 2012. The HFAP surveyors noted that the pursuit of excellence and the culture of quality and service are pervasive throughout the Hospital. The Hospital has received other recognition for its quality, among those:

- The Hospital was named to the Thomson Reuters' 100 Top Hospitals Award list for exceptional organization performance. The 100 Top Hospital award identifies the highest performing acute care hospitals in the nation. The Hospital was one of only six Indiana hospitals to make the list.
- The Heart & Vascular Center at Columbus Regional Hospital received the American College of Cardiology Foundation's Gold Performance Achievement Award for 2011. The Hospital was one of only 167 hospitals nationwide and one of six hospitals in Indiana to earn the recognition. The award recognizes commitment and success in implementing a high standard of care for heart attack patients, as outlined by the American College of Cardiology and American Heart Association clinical guidelines.

- Columbus Regional Hospital was named among the top 3 percent of U.S. hospitals as one of the HealthStrong Top 100 Hospitals in the nation. This list identifies the hospitals best prepared for success under healthcare reform. The Hospital was one of only four Indiana hospitals to make the list.
- The Columbus Regional Hospital Cancer Center earned accreditation with commendation from the Commission on Cancer of the American College of Surgeons. The CoC Accreditation Program sets quality of care standards for cancer programs and reviews programs to ensure they conform to those standards. Accreditation is given only to those facilities that have voluntarily committed to providing the highest level of quality cancer care and that undergo a rigorous evaluation process and review of their performance.
- The Stroke Center at Columbus Regional Hospital received the American Heart Association/American Stroke Association's Get With the Guidelines Stroke Silver Performance Achievement Award. The award recognizes hospitals for commitment and success in implementing a higher standard of stroke care by ensuring that stroke patients receive treatment according to nationally accepted standards and recommendations.
- Columbus Regional Hospital's Outpatient Diabetes Services was named an accredited diabetes education program by the American Association of Diabetes Educators. This accreditation allows residents in and around Columbus increased access to critical diabetes education services. Columbus Regional Hospital's Outpatient Diabetes Services offers individual appointments with diabetes specialists, educational classes, insulin pump training, gestational diabetes programs, and more.

Patient safety has always been the Hospital's top priority, and the Hospital researches the best practices in medicine to deliver evidence-based safe care. The Hospital is recognized as a mentor hospital for its best practices in clinical quality by the Institute for Healthcare Improvement, a national leader in healthcare quality and safety. The Hospital is an early adopter in the hospital industry to apply Lean and Six Sigma performance improvement methodology to a healthcare environment. This has resulted in improved processes and greater efficiencies in many areas including emergency care, medication dispensing and surgical services.

Focus on Growth and Innovation

The Hospital is committed to using the latest technology and innovation to improve patient safety and outcomes. The Hospital is investing nearly \$25 million to implement an all-new information technology system across the Hospital. Some examples of innovation and growth at the Hospital include:

- **Clinical affiliation** - Columbus Regional Hospital selected Indiana University Health Cardiovascular (formerly Clarian Cardiovascular) to develop a new affiliation for heart surgery. The new clinical affiliation will provide physician staffing coverage from IU Health for cardiac surgical procedures at Columbus Regional Hospital. This affiliation ensures the continued full-time availability of heart surgery, while interventional cardiology services will continue to be provided by Indiana Heart Physicians-Columbus. IU Health Cardiovascular stood out as Indiana's only program to be ranked in the top 50 national programs for Heart & Heart Surgery by U.S. News & World Report.
- **Name introduction** - During 2011, Columbus Regional Hospital introduced the health system name, Columbus Regional Health to better reflect the evolution of the health system that is in existence today. Columbus Regional Hospital has evolved from an acute care hospital to a healthcare system which includes affiliated physician practices, outpatient centers, urgent care facilities, off-campus support services and others. The Hospital will continue to be identified as Columbus Regional Hospital, an independent, county-owned hospital, the flagship facility of Columbus Regional Health.

- **Innovation center and simulation lab** - In the summer of 2011, Columbus Regional Hospital opened the Innovation Center and Simulation Lab. By merging Lean and Six Sigma, clinical simulation and education in a shared physical space, the Hospital is able to create and adopt best practices quicker. The innovation center and simulation lab is a place where Hospital employees work to make the delivery of healthcare more compassionate, less complicated, more affordable, more predictable and always state of the art.

Research supports that learning by doing is the best way to learn and retain information. In the simulation lab, clinical and nonclinical teams have the opportunity to use programmable human-like mannequins in simulated patient environments to create real life healthcare scenarios. Simulating real-life experiences in a controlled environment allows for the best learning and provides the opportunity to enhance this learning through review and feedback. This space allows for rapid prototyping and testing of new ideas before they are used in patient care settings.

- **Wellness Center** - Columbus Regional Hospital's Wellness Center opened in the new Mill Race Center. The Wellness Center includes an innovative fitness facility with internationally top rated, age-friendly cardio and strength equipment. The Center offers group health education, health screenings, support groups and more.
- **Wound center** - Columbus Regional Hospital opened its expanded wound center. The wound center now also provides hyperbaric oxygen medicine for chronic and non-healing wounds. It is located at the Hospital's 10th Street outpatient services location (at the intersection of 10th Street and Schnier Road). The opening of the expanded wound center marks the addition of a panel of physicians and nurses trained as specialists in wound care and hyperbaric oxygen medicine.
- **Mobile website** - Columbus Regional Hospital received the 2011 eHealthcare Leadership Award for Best Mobile Communications for hospitals with 200 to 399 beds. The mobile communications award was selected based on an organization's mobile website, mobile applications, and advertising on mobile sites, with consideration given to how well the mobile site was integrated with other communications. The Hospital website is just one example of the work towards providing patients and community members with fast and easily accessible health information. Visitors can access the Hospital's mobile website by typing www.crh.org into their smart phone browser. The site features links to information about physicians, Hospital department information and phone numbers, locations and directions of Hospital facilities, and Hospital social media profiles.

Focus on Finance

Columbus Regional Hospital's financial performance and activities for the year ended December 31, 2011 produced solid financial results allowing for the achievement of scorecard financial targets and favorable financial indicator benchmarking.

The accompanying financial statements present certain information with respect to the Hospital's financial position, results of operations and cash flows, which should be read in conjunction with the following discussion and analysis, along with the accompanying financial statements and notes. Selected financial and statistical data, as of and for the years ended December 31, are shown below:

Selected Financial Data and Statistics (Dollars in Thousands)						
	2011		2010		2009	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Summary of Operations						
Revenues	\$ 195,403	100.0%	\$ 189,619	100.0%	\$ 196,781	100.0%
Salaries and benefits	94,233	48.2%	95,445	50.3%	98,940	50.3%
Supplies and drugs	33,108	16.9%	33,920	17.9%	34,895	17.7%
Purchased services and other operating expenses	42,317	21.7%	37,417	19.7%	35,975	18.3%
Depreciation and amortization	17,604	9.0%	17,326	9.1%	16,103	8.2%
Total expenses	<u>187,262</u>	95.8%	<u>184,108</u>	97.1%	<u>185,913</u>	94.5%
Income from operations	8,141	4.2%	5,511	2.9%	10,868	5.5%
Nonoperating income (expense), net	(2,094)	-1.1%	5,642	3.0%	15,774	8.0%
Capital grants	7,313	3.7%	1,488	0.8%	44,309	22.5%
Extraordinary items	<u>-</u>	0.0%	<u>-</u>	0.0%	<u>(520)</u>	-0.3%
Increase in net assets	<u>\$ 13,360</u>	6.8%	<u>\$ 12,641</u>	6.7%	<u>\$ 70,431</u>	35.8%
Cash Flow Data						
Cash provided by operating activities	\$ 27,517		\$ 23,425		\$ 12,322	
Cash provided by (used in) noncapital activities	(2,745)		(3,202)		10,086	
Cash provided by (used in) financing activities	(21,939)		(5,614)		10,459	
Cash provided by (used in) investing activities	(7,333)		(7,542)		10,759	
Financial Position						
Current assets	\$ 65,316		\$ 63,867		\$ 73,336	
Capital assets, net	130,958		127,345		129,394	
Other noncurrent assets	<u>135,335</u>		<u>124,002</u>		<u>103,566</u>	
Total assets	<u>\$ 331,609</u>		<u>\$ 315,214</u>		<u>\$ 306,296</u>	
Long-term debt, including current portion	\$ 55,049		\$ 58,994		\$ 62,792	
Other liabilities	<u>36,839</u>		<u>29,859</u>		<u>29,783</u>	
Total liabilities	<u>\$ 91,888</u>		<u>\$ 88,853</u>		<u>\$ 92,575</u>	
Unrestricted net assets	\$ 161,893		\$ 156,052		\$ 145,185	
Net assets invested in capital assets	75,909		68,351		66,602	
Restricted net assets	<u>1,919</u>		<u>1,959</u>		<u>1,934</u>	
Total net assets	<u>\$ 239,721</u>		<u>\$ 226,362</u>		<u>\$ 213,721</u>	
Days cash on hand	281.5		277.9		226.5	
Operating Data						
Number of beds (available for use)	178		210		210	
Inpatient discharges	8,990		8,519		9,674	
Average daily census	99		91		107	
Average length of stay	4.0		3.9		4.0	
Occupancy	48%		43%		50%	
Inpatient case mix	1.3845		1.4039		1.3308	
Outpatient visits	234,514		233,255		235,151	

Results of Operations

The Hospital's revenues depend upon inpatient occupancy levels, the ancillary services, and therapy programs ordered by physicians and provided to patients, the volume of outpatient procedures, and the charge and negotiated payment rates for such services. The Hospital's gross charges typically do not reflect what is actually paid. The Hospital has entered into agreements with third-party payers, including government programs and managed care health plans, under which payments for healthcare services provided to patients are based upon predetermined rates per diagnoses or discounts from gross charges. In addition, the Hospital's policy is to also provide a discount to uninsured patients. This discount is similar to the discount provided to local managed care health plans.

The Hospital receives a significant portion of its revenues from government health programs, principally Medicare and Medicaid, which are highly regulated and subject to frequent and substantial changes. Gross patient revenues from the Medicare program are trending steady increasing only a slight 2% in the past five years. Gross patient revenues from the Medicaid program are trending upward and have increased 22% in the past five years. Governmental reimbursement policies continue to limit or reduce the levels of payments from these programs.

The approximate percentages of gross patient revenues by payer are set forth below:

	2011	2010	2009
Medicare	46.6%	46.5%	48.4%
Medicaid	12.1%	11.0%	10.2%
Managed care plans	32.8%	33.5%	33.5%
Other	8.5%	9.0%	7.9%

Revenues for the year ended December 31, 2011 increased 3.1% to \$195.4 million from \$189.6 million in 2010. 2011 revenues were down slightly, less than 1%, when compared to 2009 revenues which totaled \$196.8 million. The increase in revenues for 2011 was largely due to inpatient discharges for 2011 that were up 5.5% over the number of inpatient discharges for 2010. Outpatient volumes in 2011 were up less than 1% when compared to 2010 and 2009 outpatient volumes. Emergency Department (ED) visits, which make up 18% of total outpatient volumes, increased 3.4% in 2011 when compared to 2010 and up 3.0% when compared to 2009.

Total operating expenses increased 1.7% in 2011 to \$187.3 million from \$184.1 million in 2010. Salaries and benefits and supplies decreased 1.3% and 2.4%, respectively. Purchased services and depreciation were up 8.2% and 1.6%, respectively. Full time equivalents (FTEs) continued the downward trend, as FTEs for 2011 totaled 1,332 compared to 1,341 in 2010 and 1,436 in 2009. Operating expenses for 2010 and 2009 increased (decreased) (1.0)% and 10.7%, respectively, over the prior year. The Hospital continues its efforts at controlling costs and improving efficiencies throughout all departments using Lean Sigma and other process standardization and improvement tools.

Income from operations for 2011 totaled \$8.1 million; an increase when compared to \$5.5 million for 2010 but a decrease when compared to \$10.9 million for 2009. Net nonoperating expense for 2011 totaled \$2.1 million, which included investment gains, interest expense and contributions to related organizations. Nonoperating income for 2010 and 2009 consisted mostly of investment income and totaled \$5.6 million and \$15.8 million, respectively. Increase in net assets for 2011 totaled \$13.4 million compared to increases in net assets that totaled \$12.6 million for 2009 and \$70.4 million in 2009.

Financial Position

Cash provided by operating activities in 2011 totaled \$28 million. This compares to cash provided by operating activities of \$23 million in 2010 and \$12 million in 2009. The increase in the amount of cash provided from operating activities in 2011 is as a result of reduced salaries and benefit costs. The Hospital received \$6.5 million in supplemental Medicaid payments in 2011 compared to amounts received in 2010 and 2009 of \$6.9 million and \$7.2 million, respectively. Cash provided by operating activities for 2011, 2010 and 2009, excluding the supplemental Medicaid payment, would have totaled approximately \$21 million, \$16 million and \$5 million, respectively. Most of the capital expenditures for 2011, which totaled \$18 million, were for building flood restoration and computer system upgrade and replacement. Building flood restoration includes the hazard mitigation project (flood wall) which should be completed in 2012. The estimated capital costs for the completion of the building flood restoration is approximately \$2.0 million. The computer system upgrade and replacement project, phase 1 should be completed in 2012 allowing the Hospital to achieve “meaningful use” and a more integrated electronic health record. The estimated capital costs for the 2012 computer system upgrade is \$4.3 million. As of December 31, 2011, the Hospital’s construction in progress totaled \$17.4 million, consisting of amounts expended for the patient tower ED expansion project, the hazard mitigation project (flood wall) and the computer upgrade project. Capital expenditures for 2010 totaled \$16 million with construction in progress of \$10 million at the end of the year. Capital expenditures for 2009 totaled \$27 million and construction in progress at the end of the year totaled \$8 million.

Total current assets increased to \$65.3 million for 2011 compared to \$63.9 million in 2010 and compared to \$73.3 million in 2009. Other noncurrent cash and investments increased to \$118.4 million for 2011 compared to \$108.8 million for 2010 and \$90.2 million for 2008. The increase can be attributed to internally designated funds as investment market values recovered and the Hospital reinvested funds withdrawn for flood related expenditures. A summary of other noncurrent assets is presented in the table below:

Noncurrent Assets (dollars in millions)	2011	2010	2009
Internally designated funds	\$ 118.4	\$ 108.8	\$ 90.2
Funds held under a bond indenture agreement by trustee (net of current portion)	0.0	0.1	0.1
Other assets	<u>16.9</u>	<u>15.1</u>	<u>13.3</u>
Total noncurrent assets (excluding capital assets)	<u>\$ 135.3</u>	<u>\$ 124.0</u>	<u>\$ 103.6</u>

The Hospital had \$55.0 million in long-term debt at December 31, 2011 compared to \$59.0 million for 2010 and \$62.8 million for 2009. The Hospital issued Indiana Finance Authority Variable Rate Demand Revenue Bonds, Series 2009A and Series 2009B totaling \$43 million refunding the failed Auction Rate Securities Bonds, Series 2003. In addition, the Hospital also paid off in 2009, the \$3.0 million short-term debt outstanding at December 31, 2008, as well as amounts drawn on the short-term \$29 million line of credit secured in early 2009. At December 31, 2011 and 2010, the Hospital had no short-term debt outstanding. The additional short-term debt needed in 2008 and 2009 helped fund operating activities, flood recovery and capital acquisitions while waiting for government disaster grant monies to be paid.

Economic Outlook

The Patient Protection and Affordable Care Act/Health Care and Education Reconciliation Act, commonly referred to as the “health care reform law” was signed into law by Federal lawmakers in March 2010 and has been described as the most significant health care legislation since the passage of Medicare and Medicaid. The goal of the 2010 health care reform law is to increase the health care “value” by improving quality, reducing costs and improving accessibility. The law is complicated and its many provisions become effective in stages. Many key provisions will not be effective until after 2014.

Health care reform will require fundamental changes to the healthcare business and care delivery models. Physician relationships will be critical in changing these models. Hospitals will be pressured to reduce costs and operate more efficiently in order to improve the health care value.

Contacting the Hospital’s Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital’s finances and to show the Hospital’s accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital’s Administration by telephoning (812) 376-5205.

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Balance Sheets
December 31, 2011 and 2010

Assets

	2011	2010
Current Assets		
Cash and cash equivalents	\$ 26,985,283	\$ 31,474,082
Patient accounts receivable, less allowance for uncollectible accounts (\$4,607,378 in 2011 and \$4,760,862 in 2010)	24,652,315	21,938,366
Grants receivable	4,501,711	382,343
Other receivables	1,771,987	1,899,610
Inventories	2,953,233	2,585,107
Prepaid expenses	2,681,760	3,827,563
Restricted current assets limited as to use	1,770,127	1,759,836
Total current assets	<u>65,316,416</u>	<u>63,866,907</u>
Noncurrent Cash and Investments		
Internally designated	118,421,242	108,774,067
Trustee-held funds, less current	42,975	64,857
Total noncurrent cash and investments	<u>118,464,217</u>	<u>108,838,924</u>
Capital Assets		
Plant and equipment	287,167,843	274,200,678
Less accumulated depreciation	175,479,503	158,642,527
	<u>111,688,340</u>	<u>115,558,151</u>
Land	1,746,052	1,715,612
Construction in progress	17,524,000	10,070,742
Capital assets, net	<u>130,958,392</u>	<u>127,344,505</u>
Deferred Outflow of Resources - Interest Rate Swap Agreements	<u>3,753,772</u>	<u>2,247,082</u>
Other Assets		
Notes receivable, related party	6,393,312	6,888,600
Joint venture investments and other notes receivable	4,377,022	4,940,409
Unamortized bond issuance costs	1,154,161	1,087,913
Goodwill	1,191,819	-
	<u>13,116,314</u>	<u>12,916,922</u>
Total assets	<u><u>\$ 331,609,111</u></u>	<u><u>\$ 315,214,340</u></u>

Liabilities and Net Assets

	2011	2010
Current Liabilities		
Accounts payable	\$ 11,760,815	\$ 7,793,646
Salaries, wages and related liabilities	9,368,698	8,684,990
Accrued interest payable	546,951	662,946
Estimated third-party payer settlements	4,147,314	3,440,978
Other accrued liabilities	6,434,075	6,137,450
Current portion of long-term debt	4,175,000	3,915,000
Total current liabilities	<u>36,432,853</u>	<u>30,635,010</u>
Fair Value of Interest Rate Swap Agreements	3,753,772	2,247,082
Long-Term Obligations	50,874,399	55,078,748
Accrued Pension Cost	827,218	891,762
Total liabilities	<u>91,888,242</u>	<u>88,852,602</u>
Net Assets		
Unrestricted	161,893,309	156,052,316
Invested in capital assets, net of related debt	75,908,993	68,350,757
Restricted - expendable	1,918,567	1,958,665
Total net assets	<u>239,720,869</u>	<u>226,361,738</u>
 Total liabilities and net assets	 <u>\$ 331,609,111</u>	 <u>\$ 315,214,340</u>

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Revenue		
Net patient service revenue, net of provision for uncollectible accounts of \$13,477,433 in 2011 and \$12,148,564 in 2010	\$ 191,744,749	\$ 186,412,857
Other operating revenue	3,658,254	3,205,792
Total operating revenue	<u>195,403,003</u>	<u>189,618,649</u>
Operating Expenses		
Salaries and wages	69,849,513	68,974,227
Employee benefits	24,383,941	26,470,602
Fees	14,271,468	11,116,564
Supplies	33,107,988	33,920,234
Purchased services	25,442,914	23,519,907
Depreciation and amortization	17,604,155	17,326,263
Insurance	2,008,345	2,265,610
Other	594,596	514,736
Total operating expenses	<u>187,262,920</u>	<u>184,108,143</u>
Operating Income	<u>8,140,083</u>	<u>5,510,506</u>
Nonoperating Income (Expenses)		
Investment return	3,360,339	11,869,709
Interest expense	(2,709,169)	(3,025,497)
Contributions to related organizations	(1,979,840)	(2,675,810)
Other nonoperating expense	(765,585)	(526,244)
Total nonoperating income (expense)	<u>(2,094,255)</u>	<u>5,642,158</u>
Excess of Revenues Over Expenses Before Capital Grants	6,045,828	11,152,664
Capital Grants	<u>7,313,303</u>	<u>1,487,786</u>
Increase in Net Assets	13,359,131	12,640,450
Net Assets, Beginning of Year	<u>226,361,738</u>	<u>213,721,288</u>
Net Assets, End of Year	<u><u>\$ 239,720,869</u></u>	<u><u>\$ 226,361,738</u></u>

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Cash received from patients and third-party payers	\$ 190,160,678	\$ 189,678,481
Cash payments to employees for services	(93,840,575)	(96,740,247)
Cash payments to suppliers for goods and services	(72,588,669)	(71,708,011)
Other cash received	3,785,877	2,194,516
Net cash provided by operating activities	<u>27,517,311</u>	<u>23,424,739</u>
Noncapital Financing Activities		
Contributions to related parties	(1,979,840)	(2,675,810)
Other nonoperating	(765,585)	(526,244)
Net cash used in noncapital financing activities	<u>(2,745,425)</u>	<u>(3,202,054)</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(3,915,000)	(3,740,000)
Interest paid on long-term debt	(3,057,371)	(3,125,990)
Acquisition and construction of capital assets	(18,160,508)	(15,014,154)
Proceeds from sales of capital assets	-	33,102
Capital grants and contributions received	3,193,935	16,233,152
Net cash used in capital and related financing activities	<u>(21,938,944)</u>	<u>(5,613,890)</u>
Investing Activities		
Investment income	5,960,404	5,713,931
Purchase of investments in assets limited as to use	(27,247,240)	(24,942,693)
Disbursements for loans receivable	(493,605)	(1,538,404)
Repayments of loans receivable	1,137,274	725,436
Purchase of Columbus Surgery Center, LLC	(1,690,165)	-
Sale of investments in assets limited as to use	15,000,000	12,500,000
Net cash used in investing activities	<u>(7,333,332)</u>	<u>(7,541,730)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(4,500,390)	7,067,065
Cash and Cash Equivalents at Beginning of Year	<u>33,298,775</u>	<u>26,231,710</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 28,798,385</u></u>	<u><u>\$ 33,298,775</u></u>

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Statements of Cash Flows (Continued)
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 26,985,283	\$ 31,474,082
Cash and cash equivalents in assets limited as to use and noncurrent cash		
Held by trustee under bond indenture	<u>1,813,102</u>	<u>1,824,693</u>
Total cash and cash equivalents	<u><u>\$ 28,798,385</u></u>	<u><u>\$ 33,298,775</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Income from operations	\$ 8,140,083	\$ 5,510,506
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation and amortization	17,604,155	17,326,263
Provision for uncollectible accounts	13,477,433	12,148,564
Loss on sale of equipment	72,761	114,873
Change in assets and liabilities		
Patient accounts receivable	(15,975,652)	(9,724,327)
Other assets	710,031	(899,659)
Current liabilities	<u>3,488,500</u>	<u>(1,051,481)</u>
Net cash provided by operating activities	<u><u>\$ 27,517,311</u></u>	<u><u>\$ 23,424,739</u></u>
Additional Cash Flows Information		
Property and equipment acquired through accounts payable	\$ 4,384,817	\$ 2,403,863

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Notes to Financial Statements
December 31, 2011 and 2010

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Columbus Regional Hospital (Hospital) is an acute care hospital located in Columbus, Indiana. The Hospital is a component unit of Bartholomew County (County) and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital pursuant to the provisions of Indiana Code 16-22-2-2. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in Bartholomew County and surrounding areas.

The Hospital is the party to several joint venture activities, which are generally accounted for under the equity method, and are more fully described later in the notes to financial statements.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2011 and 2010, cash equivalents consisted primarily of money market accounts with banks.

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Notes to Financial Statements
December 31, 2011 and 2010

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. The Hospital insures itself from general liability and medical malpractice liability through participation in a reciprocal risk retention group. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from medical malpractice, employee health and workers compensation claims. Annual estimated provisions are accrued for the self-insured portion of the self-insured claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

The investment in certain joint venture activities is reported on the equity method of accounting. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments, and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Inventories

Supply inventories are stated at the lower of cost, determined using the first-in, first-out (FIFO) method or market.

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Notes to Financial Statements
December 31, 2011 and 2010

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the Hospital:

Land improvements	10 - 15 years
Buildings and leasehold improvements	15 - 25 years
Equipment	3 - 10 years

Deferred Financing Costs

Deferred financing costs, which are included in long-term liabilities on the balance sheets, represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt.

Deferred Amounts on Refunding

Deferred amounts on refunding, which are included in long-term obligations on the balance sheets, represent losses incurred in connection with the refunding of various long-term debt. Such losses are being amortized over the shorter of the term of the respective original debt or the term of the new debt using the straight-line method.

Compensated Absences

Hospital policies permit most employees to accumulate vacation that may be realized as paid time off (PTO) or, in limited circumstances, as a cash payment. Employees earn 24, 29, 34 and 39 PTO days upon attaining specified years of employment. Part-time employees earn PTO hours on a pro rata basis on the specified years of employment. PTO days can be used for vacation, illness or bereavement.

Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Notes to Financial Statements
December 31, 2011 and 2010

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

Interest Rate Swap Agreements

The Hospital uses interest rate swap agreements to manage financial risks related to interest rate movements and the effects on its cash flows. The Hospital is accounting for the interest rate swap agreements as hedging instruments. As a result, the agreements are recorded at fair value in the balance sheets. The net cash payments or receipts under the interest rate swap agreements are recorded as an increase or decrease to interest expense.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. In addition, the Hospital is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Grants and Contributions

From time to time, the Hospital receives certain federal and state grants, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on the change in net assets.

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Notes to Financial Statements
December 31, 2011 and 2010

Note 2: Business Acquisitions

In 2011, the Hospital acquired the remaining 50% ownership in Columbus Surgery Center, LLC (Center) to give the Hospital a 100% ownership interest in the Center. The Hospital paid \$2,000,000 in cash for this acquisition, and goodwill of approximately \$941,000 was recognized in the transaction. Upon the effective date of the purchase in 2011, the Center is a blended component unit of the Hospital.

The Center is a freestanding Medicare-certified ambulatory surgery center in Columbus, Indiana and the Hospital desires to operate the Center as part of an integrated delivery system providing access to innovative, cost effective, quality healthcare that is focused on the use of technology and evidence-based medicine.

The purchase agreement contains a repurchase option with the following significant terms: the seller has the right, until January 1, 2015 (the term), to repurchase the 50% ownership in the event that: (1) the seller terminates the co-management agreement (the Agreement) during the term thereof with cause (2) the Hospital does not enter into the Agreement on or before April 1, 2012 or chooses not to renew the agreement following the expiration of the initial term of the agreement or (3) the Hospital unreasonably interferes with the ability of the seller to achieve the its performance objectives under the Agreement. The terms of the repurchase option will be determined in a manner consistent with all applicable laws and regulations, fair market value and commercially reasonable and consistent with an opinion of an independent third party valuation consultant.

Note 3: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

A summary of payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain inpatient nonacute services are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Columbus Regional Hospital
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Notes to Financial Statements
December 31, 2011 and 2010

Medicaid. Inpatient and outpatient services rendered to the Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to the service provided and the patient diagnosis.

Medicaid Disproportionate Share. The Hospital qualifies as a Medicaid Disproportionate Share Hospital (DSH) provider under Indiana Law (HEA 1095, Public Law 27-1992) and, as such, is eligible to receive certain supplemental Medicaid payments. The amounts of these supplemental Medicaid payments are dependent on regulatory approval by agencies of the federal and state governments and is determined by level, extent and cost of uncompensated care (as defined) and various other factors. Supplemental Medicaid payments have been made by the state of Indiana, and the Hospital records such amounts as revenue when reasonably determined that the funds will be received. The Hospital recognized \$6,456,717 and \$6,939,741 of net patient service revenue related to the supplemental Medicaid payment program for the years ended December 31, 2011 and 2010, respectively.

In 2011, the Indiana General Assembly passed a law allowing the usage of a Provider Assessment Fee. The State of Indiana submitted certain Medicaid State Plan Amendments to the Centers for Medicare and Medicaid Services (CMS) to incorporate a Provider Assessment Fee, requesting retroactive approval to July 1, 2011. The purpose of the Provider Assessment Fee would increase Medicaid base fee for service and diagnosis related group payment rates to Indiana hospitals and reduce the level of Medicaid lump sum payments made under the existing Medicaid Supplemental Payment programs. Management does not believe the implementation of the proposed Provider Assessment Fee will have a material effect on Medicaid revenues or the financial statements, taken as a whole.

Approximately 39.0% and 38.5% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

The 2011 net patient service revenue increased approximately \$580,000 due to removal of previously estimated amounts. The 2010 net patient service revenue decreased approximately \$33,000 due to removal of previously estimated amounts.

Columbus Regional Hospital
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December 31, 2011 and 2010

Details of gross patient charges and contractual allowances are as follows:

	2011	2010
Gross patient charges		
Inpatients	\$ 178,986,155	\$ 163,122,193
Outpatients	233,670,526	227,144,878
	<u>412,656,681</u>	<u>390,267,071</u>
Charity care charges foregone	(12,680,821)	(10,917,875)
Provision for bad debt	(13,477,433)	(12,148,564)
Contractual allowances	<u>(194,753,678)</u>	<u>(180,787,775)</u>
Net patient service revenue	<u>\$ 191,744,749</u>	<u>\$ 186,412,857</u>

Note 4: Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides, as well as the amount of charges foregone for services and supplies furnished under its charity care policy. During the years ended December 31, 2011 and 2010, charges excluded from revenue under its charity policy were \$12,680,821 and \$10,917,875, respectively. The estimated net cost of the charity care services provided, calculated using a cost to charge ratio methodology was \$5,476,976 for 2011 and \$4,811,418 for 2010.

Note 5: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Deposits with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depositary Insurance Corporation (FDIC) or by the Indiana Public Deposit Insurance Fund (IPDIF). This includes any deposit accounts issued or offered by a qualifying financial institution. Accordingly, all deposits in excess of FDIC levels are covered by the IPDIF and are considered collateralized.

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Notes to Financial Statements
December 31, 2011 and 2010

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

At December 31, 2011 and 2010, the Hospital had the following investments, all of which mature within one year:

	2011	2010
Cash equivalents - money market funds	\$ 1,813,102	\$ 1,824,693
Investments		
Mutual funds	\$ 117,983,609	\$ 108,762,873
Interest receivable	437,633	11,194
	<u>\$ 118,421,242</u>	<u>\$ 108,774,067</u>

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital's investment policy states an expected duration of investments between two and five years. The money market account and mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Hospital's policy to limit its investments in money market funds with a rating of AAA or above by Standard & Poor's or Aaa or above by Moody's, with a maximum maturity of one year. At December 31, 2011 and 2010, the Hospital's investments in mutual funds were not rated by Standard & Poor or Moody. No investments are to be made by the Hospital in nonmarketable securities.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities for the Hospital's investments in repurchase agreements, equities and fixed income securities at December 31, 2011 and 2010 are held by the counterparties in other than the Hospital's name.

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements

December 31, 2011 and 2010

Concentration of Credit Risk - The Hospital establishes ranges by investment category to limit investment concentration. At December 31, 2011 and 2010, the Hospital's investment in mutual funds consisted of:

	2011	2010
PIMCO Total Return and Low Duration fixed income funds	35%	31%
Scout Core Plus Bond Fund Institutional	28%	0%
Mainstay ICAP Select Equity fund	8%	12%
Frontegra Columbus Core Plus fixed income fund	0%	29%
Vanguard Institutional Index fund	6%	10%
Other funds	23%	18%
	<u>100%</u>	<u>100%</u>

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2011	2010
Carrying value		
Deposits	\$ 28,798,385	\$ 33,298,775
Investments	118,421,242	108,774,067
	<u>\$ 147,219,627</u>	<u>\$ 142,072,842</u>
Included in the following balance sheets captions		
Cash and cash equivalents	\$ 26,985,283	\$ 31,474,082
Current assets limited as to use	1,770,127	1,759,836
Noncurrent assets limited as to use	118,464,217	108,838,924
	<u>\$ 147,219,627</u>	<u>\$ 142,072,842</u>

Investment Return

Investment return for the years ended December 31, 2011 and 2010 consisted of:

	2011	2010
Interest and dividend income	\$ 5,960,404	\$ 5,713,931
Net increase (decrease) in fair value of investments	<u>(2,600,065)</u>	<u>6,155,778</u>
	<u>\$ 3,360,339</u>	<u>\$ 11,869,709</u>

Columbus Regional Hospital

A Component Unit of Bartholomew County, Indiana

Notes to Financial Statements

December 31, 2011 and 2010

Note 6: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. The mix of accounts receivable from patients and third-party payers at December 31, 2011 and 2010 was as follows:

	2011	2010
Medicare	30.8%	28.6%
Medicaid	12.8%	10.0%
Other third-party payers	42.0%	44.4%
Individual patients	14.4%	17.0%
	<u>100.0%</u>	<u>100.0%</u>

Note 7: Investment in and Advances to Equity Investees

The Hospital participates as a joint owner in several companies. The investment by the Hospital in these companies is recorded in accordance with the equity method of accounting. Where the Hospital's ownership percentage is less than 20%, the cost method of accounting is used. A listing of the companies, ownership percentages and the net investment values as of December 31 are as follows:

Company Name - Description	Ownership %	2011 Investment Amount	2010 Investment Amount
Brown County Medical Coop LLC - Medical Office Building	50.00%	\$ 640,728	\$ 672,038
Columbus Urgent Care Center JT Venture - Immediate Care Center	50.00%	290,640	457,538
St. Vincent Jennings Hospital, Inc. - Nonprofit Corporation	10.00%	450,000	450,000
RCG Columbus, LLC - Outpatient Renal Dialysis Services	12.25%	181,921	181,921
United Hospital Services, LLC - Laundry Services	4.35%	262,722	65,680
Indiana Healthcare Reciprocal Risk Retention Group	11.00%	335,311	335,311
Columbus Surgery Center, LLC	100%/50%	<u>-</u>	<u>1,205,718</u>
Total		<u>\$ 2,161,322</u>	<u>\$ 3,368,206</u>

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Notes to Financial Statements
December 31, 2011 and 2010

Note 8: Capital Assets

Capital assets activity for the years ended December 31, 2011 and 2010 was:

	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 1,715,612	\$ 30,440	\$ -	\$ -	\$ 1,746,052
Land improvements	10,443,496	430,636	-	-	10,874,132
Buildings and leasehold improvements	166,348,935	5,965,245	(20,188)	2,743,496	175,037,488
Equipment	97,408,247	6,464,285	(2,616,309)	-	101,256,223
Construction in progress	10,070,742	10,196,754	-	(2,743,496)	17,524,000
	<u>285,987,032</u>	<u>23,087,360</u>	<u>(2,636,497)</u>	<u>-</u>	<u>306,437,895</u>
Less accumulated depreciation					
Land improvements	9,218,362	147,101	-	-	9,365,463
Buildings and leasehold improvements	83,329,619	8,942,277	(12,287)	-	92,259,609
Equipment	66,094,546	10,311,334	(2,551,449)	-	73,854,431
	<u>158,642,527</u>	<u>19,400,712</u>	<u>(2,563,736)</u>	<u>-</u>	<u>175,479,503</u>
	<u>\$ 127,344,505</u>	<u>\$ 3,686,648</u>	<u>\$ (72,761)</u>	<u>\$ -</u>	<u>\$ 130,958,392</u>
	2010				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 1,715,612	\$ -	\$ -	\$ -	\$ 1,715,612
Land improvements	9,651,425	805,159	(13,088)	-	10,443,496
Buildings and leasehold improvements	157,396,662	7,712,878	(170,364)	1,409,759	166,348,935
Equipment	98,927,721	2,788,162	(4,560,470)	252,834	97,408,247
Construction in progress	7,735,635	3,997,700	-	(1,662,593)	10,070,742
	<u>275,427,055</u>	<u>15,303,899</u>	<u>(4,743,922)</u>	<u>-</u>	<u>285,987,032</u>
Less accumulated depreciation					
Land improvements	9,111,489	119,961	(13,088)	-	9,218,362
Buildings and leasehold improvements	75,754,106	7,694,896	(119,383)	-	83,329,619
Equipment	61,167,901	9,390,121	(4,463,476)	-	66,094,546
	<u>146,033,496</u>	<u>17,204,978</u>	<u>(4,595,947)</u>	<u>-</u>	<u>158,642,527</u>
	<u>\$ 129,393,559</u>	<u>\$ (1,901,079)</u>	<u>\$ (147,975)</u>	<u>\$ -</u>	<u>\$ 127,344,505</u>

Columbus Regional Hospital
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Notes to Financial Statements
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Note 9: Medical Malpractice Claims

Malpractice insurance coverage is provided on a claims-made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured. However, the Indiana Malpractice Act (the Act) limits professional liability for claims prior to July 1, 1999 to a maximum recovery of \$750,000 per occurrence (\$3,000,000 annual aggregate), \$100,000 of which would be paid through malpractice insurance coverage, and the balance would be paid by the State of Indiana patient Compensation Fund (the Fund). For claims on or after July 1, 1999, the maximum recovery is \$1,250,000 per occurrence (\$7,500,000 annual aggregate), \$250,000 of which would be paid through insurance coverage and the remainder by the Fund.

During 2003, the Hospital became one-sixth a subscriber in a Vermont captive insurance company, Indiana Healthcare (previously named VHA Central), a reciprocal risk retention group. This captive insurance company was fully recognized by the Fund as of October 1, 2003. The initial capital contribution of \$166,667 has been included in other assets, along with additional funds remitted thereafter of \$168,644. Effective February 1, 2004, the captive insurer provided insurance coverage to the Hospital for the required portion of the insurance coverage pursuant to the Act as well as its liability insurance. In prior years, insurance coverage was provided by ProAssurance and PHICO Insurance Company (PHICO).

Note 10: Self-Insured Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$250,000 and \$200,000 in 2011 and 2010, respectively. The Hospital is also self-insured for worker's compensation claims. Commercial stop-loss insurance coverage is purchased for health claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years.

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Activity in the Hospital's accrued employee health claims liability, which is included in other accrued liabilities in the balance sheets, during 2011 and 2010 is summarized as follows:

	2011	2010
Balance, beginning of year	\$ 2,165,410	\$ 1,875,647
Current year claims incurred and changes in estimates for claims incurred in prior years	13,153,818	13,419,182
Claims and expenses paid	<u>(13,401,700)</u>	<u>(13,129,419)</u>
Balance, end of year	<u>\$ 1,917,528</u>	<u>\$ 2,165,410</u>

Note 11: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31, 2011 and 2010:

	Beginning Balance	Additions	2011 Deductions	Ending Balance	Current Portion
Long-Term Debt					
Indiana Health Facility Financing Authority Bonds Series 2009	\$ 42,250,000	\$ -	\$ (815,000)	\$ 41,435,000	\$ 855,000
Indiana Health Facility Financing Authority Bonds - Series 1993	<u>17,835,000</u>	<u>-</u>	<u>(3,100,000)</u>	<u>14,735,000</u>	<u>3,320,000</u>
	60,085,000	-	(3,915,000)	56,170,000	4,175,000
Plus: Unamortized bond premium	534,592	-	(177,153)	357,439	-
Less: Deferred amount on refunding	<u>1,625,844</u>	<u>-</u>	<u>(147,804)</u>	<u>1,478,040</u>	<u>-</u>
Total long-term debt	<u>\$ 58,993,748</u>	<u>\$ -</u>	<u>\$ (3,944,349)</u>	<u>\$ 55,049,399</u>	<u>\$ 4,175,000</u>

	Beginning Balance	Additions	2010 Deductions	Ending Balance	Current Portion
Long-Term Debt					
Indiana Health Facility Financing Authority Bonds Series 2009	\$ 43,095,000	\$ -	\$ (845,000)	\$ 42,250,000	\$ 815,000
Indiana Health Facility Financing Authority Bonds - Series 1993	<u>20,730,000</u>	<u>-</u>	<u>(2,895,000)</u>	<u>17,835,000</u>	<u>3,100,000</u>
	63,825,000	-	(3,740,000)	60,085,000	3,915,000
Plus: Unamortized bond premium	740,200	-	(205,608)	534,592	-
Less: Deferred amount on refunding	<u>1,773,648</u>	<u>-</u>	<u>(147,804)</u>	<u>1,625,844</u>	<u>-</u>
Total long-term debt	<u>\$ 62,791,552</u>	<u>\$ -</u>	<u>\$ (3,797,804)</u>	<u>\$ 58,993,748</u>	<u>\$ 3,915,000</u>

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Revenue Bonds Payable

Indiana Health Facility Financing Authority Hospital Revenue Refunding Bonds, Series 1993, payable August 2015 are subject to mandatory redemption through the operation of a sinking fund commencing August 15, 2009. The amount of the principal payable at December 31, 2011 and 2010 totals \$14,735,000 and \$17,835,000, respectively. The unamortized bond issue premium at December 31, 2011 and 2010 totals \$357,439 and \$534,592. Interest is payable semiannually at 7.0%.

In July 1993, the Hospital issued its note to the Indiana Health Facility Financing Authority (IHFFA) securing the IHFFA Hospital Revenue Refunding Bonds, Series 1993, in the amount of \$78,955,000. On August 15, 2003, a portion of the Series 1993 Bonds were called, leaving \$23,440,000 outstanding. The Series 1993 Bonds are not collateralized by a pledge, grant or mortgage of any real property of the Hospital. However, the Hospital has covenanted not to create any lien on its property other than certain permitted encumbrances. In addition, the bond agreements require maintenance of a certain debt service coverage ratio, limited additional borrowings and require compliance with other restrictive covenants.

In November 2009, the Hospital issued its note to the Indiana Finance Authority securing the Indiana Finance Authority Variable Rate Demand Revenue Bonds, Series 2009A and Series 2009B in the amount of \$43,095,000. The bonds were issued to refund the IHFFA Hospital Revenue Refunding Bonds, Series 2003. Annual principal payments are due through August 1, 2021 and interest is variable, determined weekly and paid monthly. In addition, the payment of principal and interest is further secured by separate irrevocable, direct-pay letter of credit for which the Hospital pays a letter of credit fee quarterly.

In the event of a tender advance, repayment terms of the letter of credit consist of interest only on the first 367 days, with payment and interest and principal thereafter based upon a stated amortization schedule, or expiration of the letter of credit, whichever is first. The letter of credit expires in January 2015.

The Series 2009 Bond issue requires the Hospital to maintain certain financial covenants similar to previous bond issues. In connection with refunding of the Series 2003 Bonds, the related loss on bond defeasance was deferred and is being amortized over the life of the Series 2009 Bond issue.

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The debt service requirements (excluding bond premium accretion) as of December 31, 2011, are as follows:

Years Ending December 31	Total to be Paid	Principal	Interest
2012	\$ 6,560,236	\$ 4,175,000	\$ 2,385,236
2013	6,569,480	4,455,000	2,114,480
2014	6,582,433	4,755,000	1,827,433
2015	6,590,410	5,070,000	1,520,410
2016	6,721,573	5,465,000	1,256,573
2017 - 2021	<u>35,382,179</u>	<u>32,250,000</u>	<u>3,132,179</u>
	<u><u>\$ 68,406,311</u></u>	<u><u>\$ 56,170,000</u></u>	<u><u>\$ 12,236,311</u></u>

Note 12: Line of Credit Agreement

The Hospital has unsecured taxable line of credit providing up to \$3,000,000 of nonrevolving credit, this line will mature in October 2012 and is expected to be renewed at that time. As of December 31, 2011, there were no borrowings against this line of credit.

Note 13: Interest Rate Swap Agreements

Objective of the Interest Rate Swap Agreements

The Hospital's asset/liability strategy is to have a mixture of fixed- and variable-rate debt to take advantage of market fluctuations. As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations and to lower its borrowing costs when compared against fixed-rate debt at the time of issuance, the Hospital entered into interest rate swap agreements for its bonds. The intention of the swaps is to effectively change the Hospital's variable interest rate on this note to a synthetic fixed rate.

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Terms

The agreements required no initial net cash receipt or payment by the Hospital. The agreements provide for the Hospital to receive interest from the counterparty at a variable rate based on the London Interbank Offering Rate (LIBOR) and to pay interest to the counterparty at a fixed rate on notional amounts as set forth in the table below:

Notional Amount	Trade Date	Effective Date	Termination Date	Fixed Rate Hospital Pays	Variable Rate Hospital Receives	Fair Value at December 31, 2011
\$ 12,435,000	7/22/2003	8/13/2003	8/1/2022	3.335%	67% of LIBOR	\$ (1,917,528)
13,995,000	6/8/2005	6/22/2005	8/1/2022	3.313%	65.2% of LIBOR + .33%	(1,836,244)
<u>\$ 26,430,000</u>						<u>\$ (3,753,772)</u>

Notional Amount	Trade Date	Effective Date	Termination Date	Fixed Rate Hospital Pays	Variable Rate Hospital Receives	Fair Value at December 31, 2010
\$ 12,695,000	7/22/2003	8/13/2003	8/1/2022	3.335%	67% of LIBOR	\$ (1,207,231)
14,290,000	6/8/2005	6/22/2005	8/1/2022	3.313%	65.2% of LIBOR + .33%	(1,039,851)
<u>\$ 26,985,000</u>						<u>\$ (2,247,082)</u>

Under the agreements, the Hospital pays or receives the net interest amount every 35 days, with the monthly settlements included in interest expense.

Fair Value

The fair values of the agreements are based on estimated discounted future cash flows determined using the counterparty's proprietary models based upon financial principles and estimated relevant future market conditions. The fair values of the agreements are recognized in other liabilities in the Hospital's balance sheets. As the swaps are effective hedging instruments, the offsetting balance is reflected as a deferred outflow on the Hospital's balance sheets. The changes in fair value of the swap agreements of \$1,506,690 and \$878,397 for the years ended December 31, 2011 and 2010, respectively, are shown as an adjustment to the carrying amount of the related deferred outflow on the balance sheets.

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Interest Rate Risk

The Hospital entered into the interest rate swap agreements as a means of limiting its exposure to fair value losses occurring from rising variable interest rates associated with various bonds. Beginning in 2004, the notional amount of the swap agreements declines by a corresponding amount each time a principal payment becomes due on the associated debt until the notional amounts for each agreement reach \$0 at the termination of the swap agreements. The termination date of the swap agreements corresponds to the maturity of the 2009A Bonds and 2009B Bonds. At December 31, 2011, the notional amount of the interest rate swap agreements will decline as follows:

Maturities in Years			
Less Than 1	1-5	6-10	More Than 10
\$ 650,000	\$ 6,360,000	\$ 19,420,000	\$ -

Credit Risk

The fair value of each swap represents the Hospital's credit exposure to the counterparty as of December 31. Should the counterparties to these transactions fail to perform according to the terms of the swap agreements, the Hospital has a maximum possible loss equivalent to the fair value at that date. To mitigate the potential for credit risk, the swaps are insured by Assured Guaranty Corporation, which was rated Aa2 by Moody's Investors Service as of December 31, 2011 and 2010. The Hospital does not currently have a policy of requiring the counterparty post collateral in the event the Hospital becomes exposed to credit risk. The Hospital does not currently have a policy requiring a master netting agreement with the counterparty and does not currently have such an agreement in place.

Basis Risk

The swaps expose the Hospital to basis risk should the relationship between LIBOR and the prime rate set by the Hospital's lender change in a manner adverse to the Hospital. If an adverse change occurs in the relationship between these rates, the expected cost savings may not be realized.

Termination Risk

The Hospital or counterparty may terminate the swaps if the other party fails to perform under the terms of the contract. If the swaps were terminated, the variable-rate bonds would no longer have a synthetic fixed rate of interest. Also, if the swaps have a negative fair value at the time of termination, the Hospital would be liable to the counterparty for a payment equal to the fair value of the respective swap.

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The change in the Hospital's fair value of interest rate swap agreements during 2011 and 2010 is summarized as follows:

	2011	2010
Balance, beginning of year	\$ (2,247,082)	\$ (1,368,685)
Decrease in market value	(1,506,690)	(878,397)
Balance, end of year	<u>\$ (3,753,772)</u>	<u>\$ (2,247,082)</u>

Swap Payments and Associated Debt

Using rates as of December 31, 2011, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are set forth in the table below. As rates vary, variable-rate interest payments and net swap payments will vary.

Years Ending December 31	2009 Bonds		Interest Rate Swap, Net	Total to be Paid
	Principal	Interest		
2012	\$ 855,000	\$ 1,440,587	\$ 635,958	\$ 2,931,545
2013	905,000	1,409,393	620,522	2,934,915
2014	955,000	1,377,453	604,038	2,936,491
2015	1,005,000	1,343,443	586,092	2,934,535
2016	5,465,000	1,256,573	568,288	7,289,861
2017 - 2021	32,250,000	3,132,179	1,646,938	37,029,117
	<u>\$ 41,435,000</u>	<u>\$ 9,959,628</u>	<u>\$ 4,661,836</u>	<u>\$ 56,056,464</u>

Note 14: Restricted and Designated Net Assets

At December 31, 2011 and 2010, restricted expendable net assets were available for the following purposes:

	2011	2010
Debt service	\$ 1,813,102	\$ 1,824,693
Capital acquisitions	99,632	130,589
Specific operating activities	5,833	3,383
Total restricted expendable net assets	<u>\$ 1,918,567</u>	<u>\$ 1,958,665</u>

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At December 31, 2011 and 2010, approximately \$119 million and \$109 million, respectively, of unrestricted net assets have been designated by the Hospital's Board of Trustees for capital acquisitions. Designated net assets remain under the control of the Board of Trustees, which may, at its discretion, later use these net assets for other purposes.

Note 15: Operating Leases

The Hospital leases various facilities under operating leases expiring at various dates through 2019. Total rental expense in 2011 and 2010 for all operating leases was approximately \$730,000 and \$678,000, respectively.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2011 that have initial or remaining lease terms in excess of one year:

2012	\$ 1,144,000
2013	1,010,000
2014	732,000
2015	653,000
2016	611,000
2017 - 2019	<u>1,084,000</u>
Future minimum lease payments	<u><u>\$ 5,234,000</u></u>

Note 16: Retirement Plans

Pension Plan

Plan Description

The Hospital has a defined-benefit pension plan as authorized by IC 16-22-3-11, covering substantially all employees of the Hospital. The plan provides retirement benefits to plan members and beneficiaries. The Hospital issues a publicly available financial report that includes financial statements and required supplementary information of the plan. That report may be obtained by writing to Columbus Regional Hospital, 2400 E. 17th Street, Columbus, Indiana 47201.

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Funding Policy

The Hospital is required to contribute at an actuarially determined rate; the rate was 3.73% and 5.48% of annual covered payroll for 2011 and 2010, respectively. The Columbus Regional Hospital Pension Committee is responsible for establishing the required plan contribution. The Hospital's contributions to the plan for 2011 and 2010 were \$2,763,725 and \$4,354,497, respectively.

Annual Pension Cost and Net Pension Obligation

The Hospital's annual pension cost and net pension obligation of the plan for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Annual required contribution	\$ 2,763,725	\$ 4,354,497
Interest on net pension obligation	62,423	76,631
Adjustment to annual required contribution	(126,967)	(142,753)
Annual pension cost	2,699,181	4,288,375
Contributions made	2,763,725	4,354,497
Decrease in net pension obligation	(64,544)	(66,122)
Net pension obligation, beginning of year	891,762	957,884
Net pension obligation, end of year	<u>\$ 827,218</u>	<u>\$ 891,762</u>

Actuarial valuation date:	January 1, 2011
Actuarial cost method:	Projected unit credit
Amortization method:	Level dollar open
Amortization period:	Ten years
Asset valuation method:	Market related value

Actuarial Assumptions

Investment rate of return	7.00% for the 2011 valuation and 8.00% for the 2010 valuation
Projected future salary increases	3.00% annually; plus merit and promotional percentage increases based on age or years of service

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Asset Valuation Method

The actuarial values of assets are valued on a smoothed value basis. Under this method, gains and losses on the market value of assets are smoothed over 5 years. Notwithstanding the above, the adjusted market value shall never be greater than 115%, nor less than 85%, of the actual market value. The measurement of the assets was changed for the January 1, 2011 date from an adjusted market value basis which resulted in a change in the unfunded actuarial accrued liability of approximately \$3.9 million.

Three-Year Trend Information

Years Ended December 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2009	\$ 3,987,634	101.8%	\$ 957,884
2010	4,288,375	101.5%	891,762
2011	2,699,181	102.4%	827,218

Funded Status

As of January 1, 2011, the most recent actuarial valuation date, the plan was 93.3% funded. The actuarial accrued liability for benefits was \$40.9 million and the actuarial value of assets was \$38.1 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$2.8 million. The covered payroll (annual payroll of active employees covered by the plan) was \$74.1 million and the ratio of UAAL to the covered payroll was 3.7%.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Defined-Contribution Plan

The Hospital also has a defined-contribution plan under Internal Revenue Code Section 401(a). The Columbus Regional Hospital Employee Savings Plan covers substantially all employees who have elected to participate in the tax sheltered annuity plan. An employee who contributes from 1% to 3% into a tax sheltered annuity plan will receive a matching contribution under the savings plan of .50% to 1%. The Hospital, at its sole discretion, may also contribute a discretionary contribution determined by the Board of Trustees annually. Pension expense under this plan for 2011 and 2010 was \$493,239 and \$482,006, respectively.

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Deferred Compensation Plan

During 2009, the Hospital began a deferred compensation plan for certain independent contractors of the Hospital under Internal Revenue Code Section 457(f). Under the plan, the Hospital makes certain contributions to each participant's deferred compensation account in accordance with the personal services agreement between the Hospital and participant. At December 31, 2011 and 2010, the liability recorded for deferred compensation earned by the participants was \$1,647,265 and \$1,112,274.

Note 17: Disclosures About Fair Value of Financial Instruments

The following methods were used to estimate the fair value of financial instruments.

The fair values of certain of these instruments were calculated by discounting expected cash flows, which method involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Hospital does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

Investments

Fair value is based on quoted market prices, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Long-Term Debt

Fair value is estimated based on the borrowing rates currently available to the Hospital for debt with similar terms and maturities.

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December 31, 2011 and 2010

Interest Rate Swap Agreements

The fair value has been estimated by a third party.

The following table presents estimated fair values of the Hospital's financial instruments at December 31:

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 28,798,385	\$ 28,798,385	\$ 33,298,775	\$ 33,298,775
Investments	<u>118,421,242</u>	<u>118,421,242</u>	<u>108,774,067</u>	<u>108,774,067</u>
	<u><u>\$ 147,219,627</u></u>	<u><u>\$ 147,219,627</u></u>	<u><u>\$ 142,072,842</u></u>	<u><u>\$ 142,072,842</u></u>
Financial liabilities				
Long-term debt	\$ 55,049,399	\$ 56,522,899	\$ 58,993,748	\$ 60,777,248
Interest rate swap agreements (asset and liability)	3,753,772	3,753,772	2,247,082	2,247,082

Note 18: Commitments and Contingencies

Commitments

The Board of Trustees has authorized management to enter into several major construction projects. The construction projects revolve around the restoration of the main Hospital grounds related to a catastrophic flood that occurred on June 7, 2008. The construction contracts associated with the projects are a percentage base contract to the general contractor and any construction management and architectural retainage is accrued at the time the contract service is rendered.

In addition, the Board of Trustees has authorized management to enter into a contract to replace and upgrade the Hospital's computer systems allowing for adoption of the electronic health record.

As of December 31, 2011, the Hospital had material commitments for acquisition of capital assets and flood renovations totaling approximately \$13.8 million.

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The Hospital, along with two other hospitals, have agreed to guarantee a \$1,000,000 reserve line of credit for the Innovative Physician Solutions, a Risk Retention Group, Inc. This company is an Arizona risk retention group insurer which provides cost-effective medical malpractice insurance coverage for the physicians in Bartholomew County and the surrounding region. The Hospital's maximum contingent liability under the pro rata guarantee is \$425,000. No amount has been drawn on this line of credit.

Investigation

The Hospital is the subject of an investigation regarding specific third-party payer program billing issues. Management believes the Hospital's medical records fully support the codes used and billings submitted and intends to vigorously defend the Hospital should any assertions to the contrary be made. No provision has been made in the financial statements for any adverse outcome that might ultimately result from this matter, as the amount of any such loss is not reasonably estimable. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

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Notes to Financial Statements

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Note 19: Related Party Transactions

The Hospital is related to several operating entities, which do not require presentation as component units within the Hospital's financial statements. These entities are related due to the existence of common directors. The following transactions and year-end balances are included in the financial statements of the Hospital:

Corporate Name/Nature of Relationship	2011	2010
Southeastern Indiana Health Management, Inc. (SIHM)		
Hospital purchases management services		
Management services expense	\$ 4,699,044	\$ 4,699,044
Rent expense	208,772	203,830
Insurance expense	506,367	518,124
Note receivable	6,508,176	6,887,639
Contributions to related organizations	2,358,738	1,720,565
Investment income	166,581	136,343
Employee benefit reimbursement received	356,794	432,176
Miscellaneous income	493,287	621,605
Other receivables	59,975	110,809
Accounts payable	72,723	51,335
Notes receivable (including interest) due from SIHM are made up of the following:		
Note due on demand, interest paid at prime	\$ 81,000	\$ 117,000
Note due on demand, interest paid at prime plus 1%	1,032,183	1,375,646
Long-term note due July 1, 2012, interest of 4%	3,294,993	3,294,993
Interest-free long-term note due May 1, 2017	2,100,000	2,100,000
	<u>\$ 6,508,176</u>	<u>\$ 6,887,639</u>
Columbus Regional Hospital Foundation, Inc.		
Hospital receives donations and makes contributions		
Contributions to the Foundation	\$ 635,013	\$ 696,015
Contributions received from the Foundation	238,325	76,786
Other receivables	214,631	38,344
Other payables	-	35,000
Hospice of South Central Indiana, Inc.		
Hospital purchases services		
Operating expenses	60,000	60,000
Miscellaneous sales to Hospice	179,317	182,884
Other receivables	206,624	289,628

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Notes to Financial Statements
December 31, 2011 and 2010

Note 20: Current Economic Conditions

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large declines and unanticipated declines in the fair value of investments and other assets, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values, including defined-benefit pension plan investments and allowances for accounts receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

**Required Supplemental Information
(Unaudited)**

Columbus Regional Hospital
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Required Supplementary Pension Plan Information
December 31, 2011
(Unaudited)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
1/1/2009	\$ 25,288,821	\$ 36,396,101	\$ 11,107,280	69.5%	\$ 77,513,889	14.3%
1/1/2010	29,434,064	40,961,008	11,526,944	71.9%	79,527,725	14.5%
1/1/2011	38,131,649	40,885,202	2,753,553	93.3%	74,175,551	3.7%

Schedule of Employer Contributions

Year Ended December 31	Annual Pension Cost (APC)	Required Contribution (ARC)	Amount Contributed	Percentage of ARC Contributed	Net Pension Obligation
2009	\$ 3,987,634	\$ 4,058,659	\$ 4,869,724	120%	\$ 957,884
2010	4,288,375	4,354,497	4,354,497	100%	891,762
2011	2,699,181	2,763,725	2,763,725	100%	827,218

Supplementary Information

Columbus Regional Hospital
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Schedule of Expenditures of Federal Awards
Year Ended December 31, 2011

Federal Grantor/ Pass-Through Grantor/Program Federal Agency/Pass-Through Agency	CFDA Number	Grant or Identifying Number	Amount
U.S. Department of Homeland Security/Federal Emergency Management Agency			
Disaster Grant - Public Assistance	97.036	FEMA-1766-DR-IN	\$ 4,501,711
U.S. Department of Housing and Urban Development/Health Resources and Services Administration			
Healthcare and Other Facilities - Equipment	93.887	C76HF19561	594,000
U.S. Department of Health and Human Services/Indiana State Department of Health			
State Administered Community Development Block Grant Program	14.228	DR1B-09-00x	730,247
U.S. Department of Health and Human Services/Indiana State Department of Health			
National Bioterrorism Hospital Preparedness Program	93.889	BHP 759	62,778
			<u>\$ 5,888,736</u>

Notes to Schedule

1. This schedule includes the federal awards activity of Columbus Regional Hospital (Hospital) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. The Hospital provided no federal awards to subrecipients.

Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Trustees
Columbus Regional Hospital
Columbus, Indiana

We have audited the financial statements of Columbus Regional Hospital (Hospital) as of and for the year ended December 31, 2011, and have issued our report thereon dated May 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the Hospital's management in a separate letter dated May 10, 2012.

This report is intended solely for the information and use of the Board of Trustees, management and others within the Hospital and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

May 10, 2012

**Independent Accountants' Report on Compliance With Requirements
That Could Have a Direct and Material Effect on Each Major Program and on
Internal Control Over Compliance in Accordance With OMB Circular A-133**

Board of Trustees
Columbus Regional Hospital
Columbus, Indiana

Compliance

We have audited the compliance of Columbus Regional Hospital (Hospital) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the compliance of Columbus Regional Hospital based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Hospital's compliance with those requirements.

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

The management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Hospital's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Trustees, management, others within the Hospital, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

May 10, 2012

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Schedule of Findings and Questioned Costs
Year Ended December 31, 2011

Summary of Auditor's Results

1. The opinion expressed in the independent accountants' report was:
☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed
2. The independent accountants' report on internal control over financial reporting described:
Significant deficiency(ies)? ☐ Yes ☒ No
Material weakness(es)? ☐ Yes ☒ No
3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No
4. The independent accountants' report on internal control over compliance with requirements that could have a direct and material effect on major federal awards programs described:
Significant deficiency(ies)? ☐ Yes ☒ No
Material weakness(es)? ☐ Yes ☒ No
5. The opinion expressed in the independent accountants' report on compliance with requirements that could have a direct and material effect on major federal awards was:
☒ Unqualified ☐ Qualified ☐ Adverse ☐ Disclaimed
6. The audit disclosed findings required to be reported by OMB Circular A-133? ☐ Yes ☒ No

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2011

7. The Hospital's major program was:

Program	CFDA Number
Disaster Grant - Public Assistance	97.036
Health Care and Other Facilities - Equipment	93.887

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.

9. The Hospital qualified as a low-risk auditee as that term is defined in OMB Circular A-133?

☐ Yes ☒ No

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2011

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Columbus Regional Hospital
A Component Unit of Bartholomew County, Indiana
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2011

Reference Number	Finding	Status
No matters are reportable.		